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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 16

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Canada

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National Overview

Canadian Retail Gasoline Prices Decreased 1 Cent per Litre from Last Week

For the week ending August 21, 2012, the average Canadian retail gasoline price decreased by nearly 1 cent per litre to $1.30 per litre. However, this represents an increase of 4 cents per litre from a year ago.

Diesel fuel prices rose by 2 cents per litre to $1.26 per litre from the previous week. This is an increase of 4 cents per litre compared to the same period last year. Furnace oil prices rose from the previous week by 1 cent to $1.17 per litre, and are 6 cents per litre higher compared to the same period last year.

Retail pump prices declined slightly compared to the previous week despite higher wholesale gasoline prices and the underlying upward pressure in world crude oil prices.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

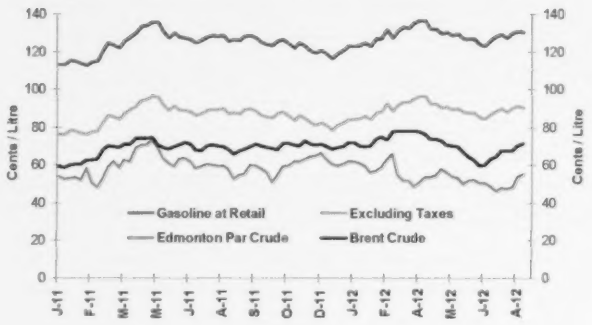
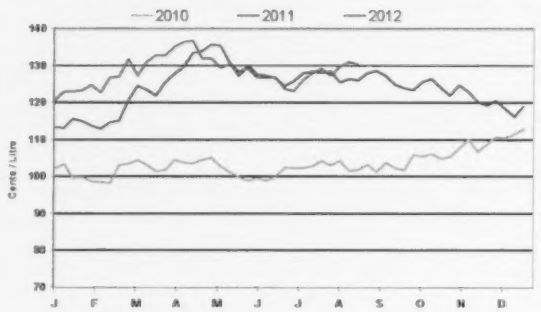


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Reduced Oil Demand Outlook for 2013**: Based on weaker economic growth assumptions, the International Energy Agency (IEA) has reduced its outlook for 2013 worldwide oil demand by 150,000 b/d from its month-ago forecast. Oil demand growth now is pegged at 870,000 b/d in 2012 and 830,000 b/d in 2013. Non-OECD demand will average 43.5 million b/d this year and 44.7 million b/d next year, IEA forecasts, as demand rises in all regions except Europe. (Source: Oil and Gas Journal)
- **TransCanada to Begin Building U.S. Gulf Crude Pipeline**: TransCanada Corp. plans to begin constructing its 700,000 barrel-per-day Gulf Coast Pipeline Project in the coming weeks, after receiving a final permit from the U.S. Army Corps of Engineers on July 27. The pipeline was once a part of TransCanada's Keystone XL crude pipeline project, which in its current proposed form would send crude from the Alberta oil sands down to Nebraska. TransCanada separated the projects early this year after U.S. President Barack Obama in January rejected the company's application for a cross-border permit. (Source: Global Refining & Fuels Report)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-08-21	Previous Week	Last Year
Gasoline	130.3	-0.7	+4.3
Diesel	125.9	+2.0	+4.0
Furnace Oil	116.7	+1.1	+5.6

Source: NRCan

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Retail Gasoline Overview

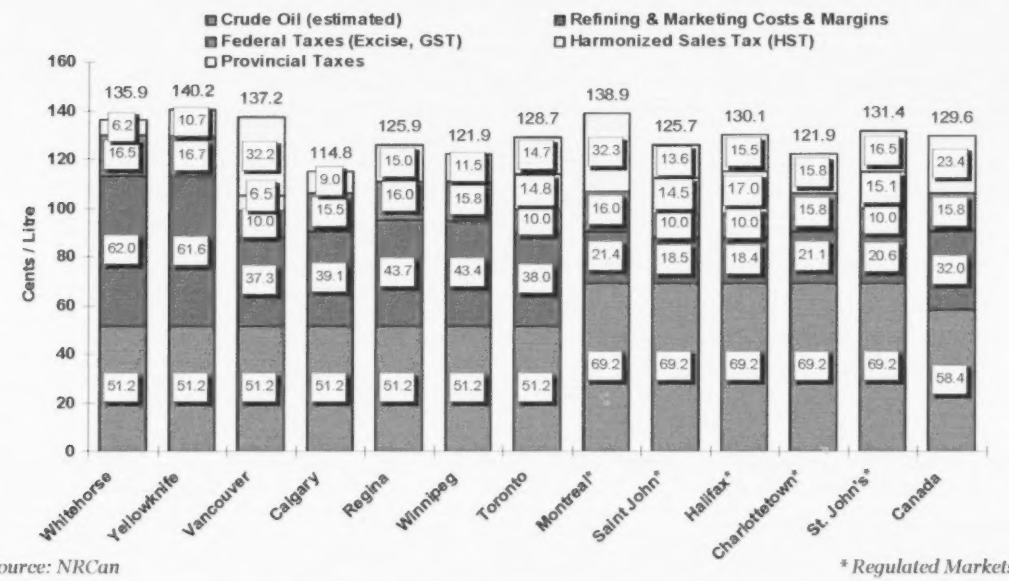
The average Canadian pump price in selected cities for the **four-week average** ending August 21, 2012, was $1.30 per litre, an increase of 1 cent per litre from the last report on August 10, 2012. This represents a 3 cent-per-litre increase compared to the same period in 2011.

The **four-week average** crude oil price increased by 3 cents per litre to 58 cents per litre compared to two weeks ago. This represents a 3 cent-per-litre decrease compared to the same time last year.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—increased about 1 cent per litre when compared to the previous report and ranged from $1.15 to $1.37 per litre. Prices in Eastern cities—Toronto to St. John's—rose by nearly 2 cents per litre and ranged from $1.22 to $1.39 cents per litre.

At the national level, refining and marketing costs and margins decreased 2 cents per litre to 32 cents per litre. This represents an increase of 5 cents per litre compared to the same time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 31 to August 21, 2012)



Source: NRCan

** Regulated Markets*

Drivers of the Recent Rise in Gasoline Prices

On July 3, 2012, the average Canadian retail gasoline price was $1.23 per litre, the lowest level since the beginning of the year. Since then, retail prices have fluctuated in the range of 16 cents per litre, reaching $1.30 per litre on August 21, 2012. The following is an excerpt from the US Energy Information Administration's weekly report explaining the causes of the recent rise in US gasoline prices. These factors also partly influence the Canadian market.

"The major driver behind this increase is the strength in the global crude oil market; the price of Brent crude oil, the crude price linked most closely to U.S. product prices over the past 18 months, has climbed more than $25 per barrel since late June. However, crude oil price increases are not the only factor behind the rise in gasoline prices. Outages at several U.S. refineries have caused tightness in gasoline markets and led to regional divergence in retail prices.

As crude oil is the major cost component of retail gasoline, crude oil price changes are typically reflected in price changes at the pump. Crude oil prices have risen since the start of July on expectations that policymakers in the European Union, China, and the United States would provide additional economic stimulus to counteract slowing growth. Additionally, the imposition of sanctions on Iran, threats by that country to block oil from transiting the Strait of Hormuz, the possibility that Israel might act unilaterally against Iran's nuclear facilities, and other continuing conflicts in the Middle East have triggered market anxiety and prompted upward price pressure."

Source: In italics, US Energy Information Administration, *This Week in Petroleum*, http://www.eia.gov/oog/info/twip/twipprint.html

Wholesale Gasoline Prices

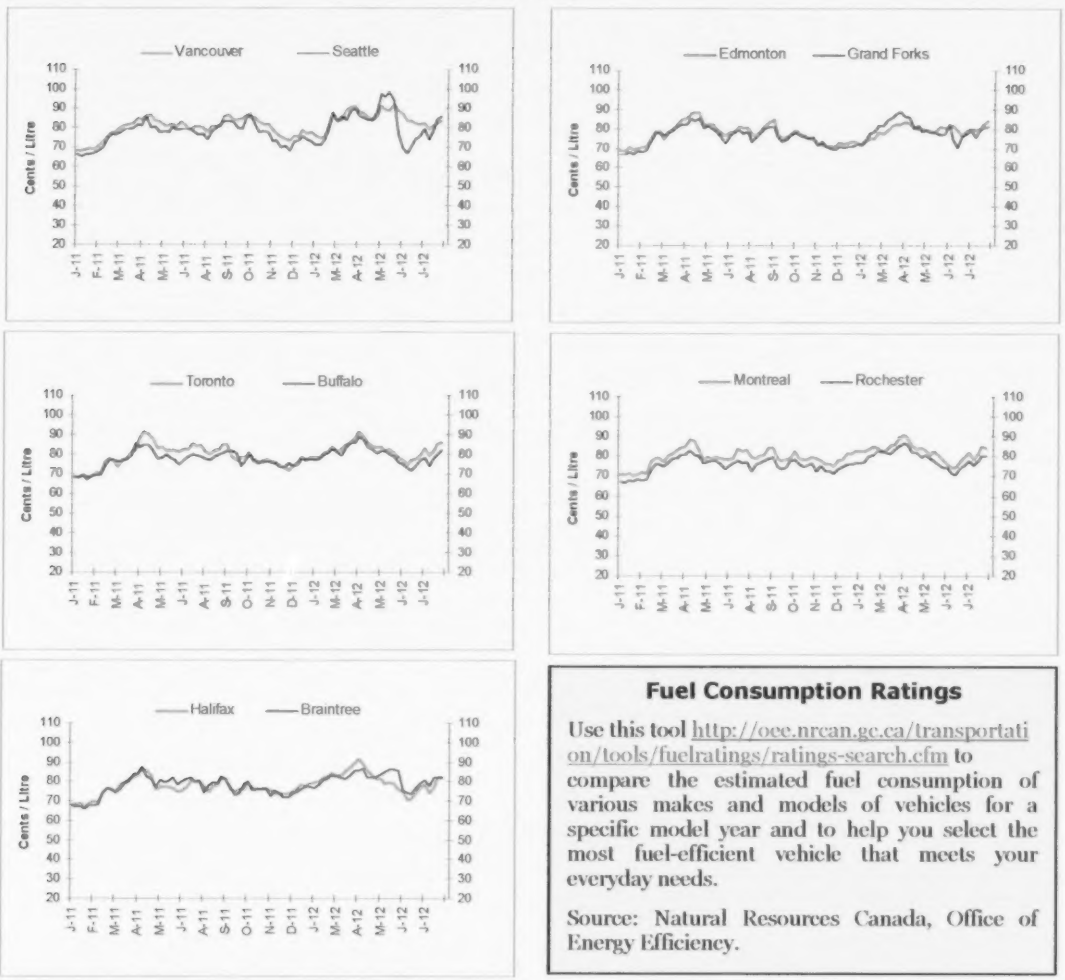
Wholesale gasoline prices increased in eight of the ten selected centres for the **week ending August 16, 2012**, compared to the previous week. Overall, prices ranged from a decrease of less than 1 cent per litre to an increase of 2 cents per litre.

In the Eastern markets of Canada and United States, wholesale gasoline prices, compared to the previous week, registered decreases ranging from less than 1 cent to increases of 2 cents per litre. Prices for the period ended in the 80 to 86 cent-per-litre range.

Western wholesale gasoline prices ended in the range of 81 to 86 cents per litre, with increases in the range of 1 to 2 cents per litre.

In the **last four weeks**, wholesale prices in both Canadian and American selected centres have increased in the range of 2 to 7 cents per litre and ended the period in the 80 to 86 cent-per-litre range. Wholesale gasoline prices in Seattle increased by nearly 16 cents per litre in the last eight weeks.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 16, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Fuel Consumption Ratings

Use this tool http://oee.nrcan.gc.ca/transportation/tools/fuelratings/ratings-search.cfm to compare the estimated fuel consumption of various makes and models of vehicles for a specific model year and to help you select the most fuel-efficient vehicle that meets your everyday needs.

Source: Natural Resources Canada, Office of Energy Efficiency.

Gasoline Refining and Marketing Margins

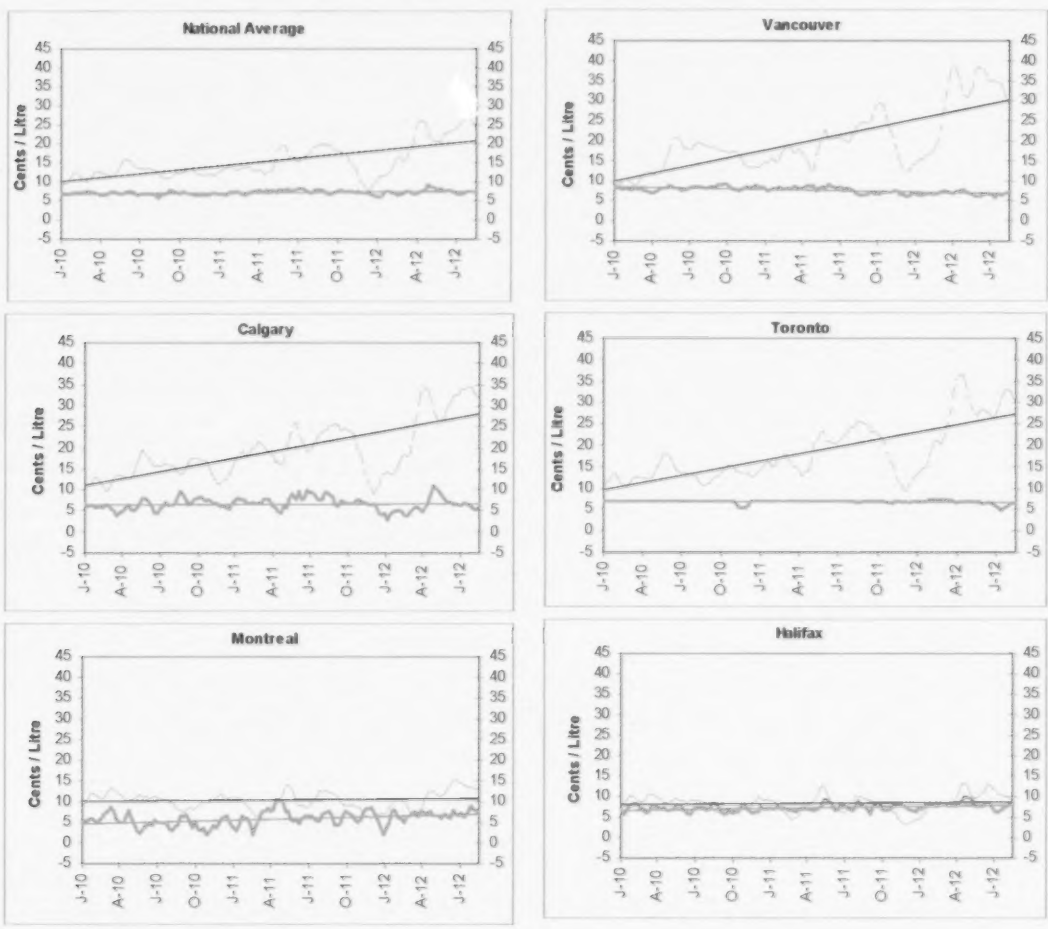
Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins had been trending upward since May but have started to move lower in the last two weeks. This reflects the fact that crude oil prices have been increasing faster than wholesale gasoline prices. More than adequate gasoline and crude oil inventories in the US further contribute to the lower refining margins. Compared to last year, margins in Canada are currently about 5 cents per litre higher.

Nationally, marketing margins hovered around 7 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold, and availability of other product offerings such as convenience stores and car washes.

For the five centres, marketing margins ranged from a low of 6 cents per litre in Calgary to a high of 8 cents per litre in Halifax.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 21, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

World Crude Oil Prices Move Up

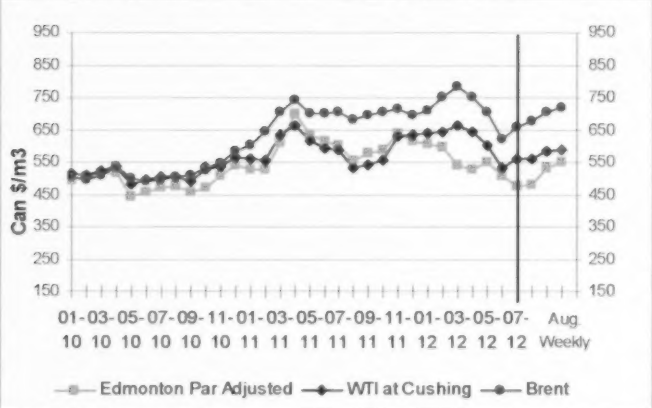
For the week ending August 17, 2012, prices for the three marker crudes averaged between $551/m^3$ and $717/m^3$, ($US88 to $US115 per barrel). This is an increase of $6 to 21/$m^3$ ($US1 to $US4 per barrel) compared to the previous week.

The crude oil price differential between WTI and Brent stood at $130/$m^3$ ($US21 per barrel) for the week under review. This represents the largest differential since October 2011. Conversely, for the week ending August 17, 2012, the price differential between Edmonton Par and WTI narrowed to $37/$m^3$ ($US6 per barrel)

Market worries about supply constraints for North Sea Brent crude oil put upward pressure on prices. According to the US Energy Information Administration, other factors contributing to the rise of crude oil prices are linked to the expectation of an economic stimulus to alleviate the sovereign debt crisis in the euro zone and the possibility that Israel might act unilaterally against Iran's nuclear facilities.

The latter could lead to a crisis in the Middle East and trigger upward pressure on prices. Better than expected economic data in the U.S. also contributed to higher crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-08-17		Change From:			
			Previous Week		Last Year	
	$Can/$m^3$	$US/bbl	$Can/$m^3$	$US/bbl	$Can/$m^3$	$US/bbl
Edmonton Par	550.91	88.46	+20.60	+3.70	+1.90	-0.20
WTI	588.00	94.42	+5.54	+1.33	+59.50	+9.07
Brent	717.53	115.22	+14.99	+2.93	+40.81	+5.94

Source: NRCan

U.S. Short-Term Energy Outlook

Domestic crude oil production increased by an estimated 210 thousand bbl/d (3.9 percent) to 5.7 million bbl/d in 2011. Forecast U.S. total crude oil production increases to 6.3 million bbl/d in 2012, the highest annual level of production since 1997.

In 2013, total crude oil output rises a further 390 thousand bbl/d, most of which is accounted for by increases in lower-48 onshore production. That increase is driven by increased oil-directed drilling activity, particularly in onshore tight oil formations.

After a sharp increase in gasoline prices earlier this year, reaching a monthly average of $3.90 per gallon (regular grade) in April, gasoline prices have fallen for the third consecutive month, averaging $3.44 per gallon in July. EIA expects regular gasoline retail prices to average $3.49 per gallon during the third quarter of 2012, up from the $3.39 per gallon projected in last month's Outlook, primarily as a result of the rise in oil prices in mid-July. EIA projects that crude oil prices will remain near their current levels through 2013, resulting in regular gasoline retail prices averaging $3.53 per gallon in 2012 and $3.33 per gallon in 2013.

Source: US Energy Information Administration, August 7, 2012